

Message Text

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DRAFTED BY TREAS: MRYSS:CG
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FM SECSTATE WASHDC
TO AMEMBASSY TOKYO PRIORITY

C O N F I D E N T I A L STATE 122705

E.O. 11652: GDS

TAGS: EFIN, EEWT, JA

SUBJECT: FINANCING UNDER JAPAN/CHINA LTA

REF: TOKYO 8384

1. WE HOPE GOJ WILL CONSIDER THE SPIRIT AS WELL AS
THE LETTER OF THE INTERNATIONAL ARRANGEMENTS ON EXPORT
CREDITS BEFORE IT EMBARKS ON ANY SCHEME DESIGNED TO PRO-
DUCE A LOWER INTEREST RATE ON SALES TO CHINA UNDER THE LTA.

2. WE CONSIDER THE INVOLVEMENT OF THE GOJ WHETHER THROUGH
A GUAARANTEE TO THE JAPANESE EXPORTER OR THROUGH ANOTHER
FORM OF OFFICIAL SUPPORT, AS REQUIRING OBSERVANCE OF THE
TERMS OF THE ARRANGEMENT, E.G. WITH RESPECT TO MINIMUM
INTEREST RATES OR MAXIMUM REPAYMENT TERMS.

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3. IF THE GOJ DEPOSITS ANY OF ITS FUNDS DIRECTLY WITH THE
BANK OF CHINA (OR INDIRECTLY THROUGH JAPANESE COMMERCIAL
BANKS) INTEREST FREE OR AT A RATE OF RETURN LOWER THAN
COMMERCIAL MARKET RATES FOR THE TERM OF THE DEPOSIT, AS A
CONDITION, IMPLIED OR OTHERWISE, THAT THESE GOJ DEPOSITS
ARE COMPENSATING BALANCES TO OFFSET INTEREST CHARGES ON

OFFICIAL EXPORT CREDITS, WE WOULD CONSIDER SUCH ACTION AS AN EVASION OF THE INTEREST RATE MINIMUMS OF THE ARRANGEMENT.

4. WE, OF COURSE, ARE NOT THE FINAL INTERPRETERS OF THE ARRANGEMENT AND THE JAPANESE MIGHT LIKE TO GET THE VIEWS OF OTHER PARTICIPANTS BY SENDING A CIRCULAR TELEX WHICH SETS FORTH THE CASE W3HICH THEY BELIEVE DOES NOT VIOLATE THE ARRANGEMENT.

5. WE AGREE EMBASSY SHOULD MAKE LOW KEY APPROACH AS PROMPTLY AS POSSIBLE TO ASSURE THAT GOJ DOES NOT GET LOCKED INTO A COURSE OF ACTION WHICH UNDERMINES GOJ'S CREDIBILITY VIS-A-VIS THEIR OBSERVANCE OF THE ARRANGEMENT.

6. IN DOING SO, EMBASSY SHOULD MAKE CLEAR THAT OUR INTEREST REMAINS THE LARGER QUESTION OF MAINTAINING THE INTEGRITY OF THE INTERNATIONAL ARRANGEMENTS ON EXPORT CREDITS, AND IS NOT AIMED AT INTERFERING WITH JAPANESE TRADE WITH CHINA.

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